



Periodic Financing Request Report

Project Number: 47273-006
MFF Number: 0086
November 2017

Democratic Socialist Republic of Sri Lanka: Integrated Road Investment Program (Tranche 4)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 November 2017)

Currency Unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.0065
\$1.00	=	SLRs153.6000

ABBREVIATIONS

ADB	–	Asian Development Bank
FAM	–	facility administration manual
FFA	–	framework financing agreement
km	–	kilometer
MFF	–	multitranche financing facility
MOHEH	–	Ministry of Higher Education and Highways
RDA	–	Road Development Authority

NOTE

In this report, “\$” refers to US dollars.

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TRANCHE AT A GLANCE

1. Basic Data		Project Number: 47273-006	
Project Name	Integrated Road Investment Program (Tranche 4)	Department /Division	SARD/SATC
Country Borrower	SRI Democratic Socialist Republic of Sri Lanka	Executing Agency	Ministry of Higher Education and Highways
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		150.00
		Total	150.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	11.10
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	Medium
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Organizational development	Effective gender mainstreaming (EGM)	✓
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Rural	High
Household Targeting	No	Urban	Low
SDG Targeting	Yes		
SDG Goals	SDG5, SDG9		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		150.00	
Sovereign MFF-Tranche (Regular Loan): Ordinary capital resources		150.00	
Cofinancing		0.00	
None		0.00	
Counterpart		18.00	
Government		18.00	
Total		168.00	

I. BACKGROUND

1. The absence of all-weather road connectivity is a serious problem in Sri Lanka's rural areas, preventing communities from accessing socioeconomic centers. Poor road infrastructure is strongly linked to poverty and affects economic growth in rural areas, agricultural productivity, and employment. The Government of Sri Lanka is addressing this problem through a countrywide rural road investment program aimed at providing all-weather road connectivity to eligible unconnected rural habitations. The country partnership strategy, 2018–2022 of the Asian Development Bank (ADB) for Sri Lanka aims to address the major constraints to improving quality of growth and is closely aligned with the government's priorities.¹ The country partnership strategy reconfirms continued ADB assistance for developing the transport sector, including rural roads, which are critical for rural development in providing access to markets, health, education, and administrative services.

2. The Integrated Road Investment Program supports the government's sector objective to improve connectivity between Sri Lanka's rural communities and socioeconomic centers.² The immediate outcome will be increased transport efficiency on project roads.

3. ADB and the government signed the framework financing agreement (FFA) for the program on 11 July 2014. On 25 September 2014, the Board approved the provision of loans to Sri Lanka under a multitranche financing facility (MFF) of up to \$800 million equivalent. The MFF uses the time-slicing approach.³ The program comprises five projects to be implemented from 2014 to 2024, as well as capacity building initiatives.⁴

4. Tranche 1 was approved by ADB on 3 October 2014. The tranche 1 loan and project agreements were signed on 5 November 2014 and became effective on 7 January 2015. Tranche 1, amounting to \$100 million, finances the first slice of the project in Southern Province to (i) improve and/or maintain 560 kilometers (km) of rural access roads and 130 km of national roads; (ii) build capacity of implementing agencies on road asset management, project management, and contract administration; and (iii) prepare the project for subsequent tranches.⁵

5. Tranche 2 was approved by ADB on 11 December 2014. The loan agreements for tranche 2 were signed on 28 May 2015, and the project agreement was signed on 4 June 2015. The loan became effective on 23 July 2015. Tranche 2, amounting to \$107 million, finances the first slice of the projects in Sabaragamuwa Province, Kalutara District of Western Province, Central Province, North Central Province, and North Western Province to improve and/or maintain 2,548 km of rural access roads and 118 km of national roads.⁶

6. Tranche 3 was approved by ADB on 23 November 2015. The loan agreements for tranche 3 were signed on 11 December 2015, and the project agreement was signed on 5 January 2016. The loan became effective on 18 March 2016. Tranche 3, amounting to \$200 million, finances the

¹ ADB. 2017. *Country Partnership Strategy: Sri Lanka, 2018–2022—Transition to Upper Middle-Income Country Status*. Manila.

² ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the Democratic Socialist Republic of Sri Lanka for the Integrated Road Investment Program*. Manila.

³ An MFF using the time-slicing approach is fully appraised before subsequent tranches are provided, and each tranche will finance part of the projects in accordance with disbursement requirements.

⁴ Project 1 is in Southern Province (tranche 1 finances the first slice of project 1), project 2 is in Sabaragamuwa Province and Kalutara District of Western Province, project 3 is in Central Province, project 4 is in North Central Province, and project 5 is in North Western Province (tranche 2 finances the first slice of projects 2–5).

⁵ The total cost of project 1 in Southern Province is estimated at \$235 million.

⁶ The total cost of projects 2 to 5 is estimated at \$605.74 million.

second slice of all projects funded under tranches 1 and 2.

7. On 1 August 2017, ADB received the government's periodic financing request for tranche 4, totaling \$150 million, to continue improving road conditions between selected rural communities and socioeconomic centers. The proposed tranche 4 will finance the third slice of all projects being funded under tranches 1, 2, and 3. Approval will ensure sufficient funds are available for disbursement and smooth implementation. Tranche 4 is included in Sri Lanka's country operations business plan, 2018–2020.⁷

II. ASSESSMENT OF IMPLEMENTATION

8. The program comprises five projects: project 1 in Southern Province, project 2 in Sabaragamuwa Province and Kalutara District of Western Province, project 3 in Central Province, project 4 in North Central Province, and project 5 in North Western Province. Tranche 1 finances the first slice of project 1, and tranche 2 finances the first slice of projects 2–5. Tranche 3 finances the second slice of the five projects that were appraised under tranches 1 and 2. As of 30 June 2017, the overall physical progress of rural access roads was 47.1%.

9. In Southern Province (project 1), there are nine conventional road contract packages to improve 560 km of rural roads and 20 km of national roads in Galle, Matara, and Hambantota districts.⁸ All contracts in Southern Province commenced on 18 May 2015 and are expected to be completed by December 2017. As of 30 June 2017, overall physical progress in Southern Province is 84.1%.

10. In North Central and North Western provinces (projects 4 and 5), there are 15 conventional road contract packages to improve 1,210 km of rural roads in Anuradhapura, Polonnaruwa, Puttalam, and Kurunegala districts. Most of the contracts in North Central and North Western provinces commenced in August 2016. As of 30 June 2017, overall physical progress is 20.6% in North Central Province and 13.5% for North Western Province.

11. In Central and Sabaragamuwa provinces and Kalutara District of Western Province (projects 2 and 3), there are 18 conventional road contract packages to improve 1,342 km of rural roads. Most of the contracts in Central and Sabaragamuwa provinces were signed in November 2015, while the contracts in Kalutara District were signed in September 2016. As of 30 June 2017, overall physical progress is 69.0% in Central Province and 50.8% in Sabaragamuwa Province; the contracts in Kalutara District are still in the mobilization stage, and the physical progress is 14.7%.

12. On the other hand, road management contracts for national roads, which are included in any of projects 1–5, have yet to be awarded. The procurement has been delayed mainly because of the requirement of the Road Development Authority (RDA) to use similar bid documents for both ADB and World Bank projects. The bid documents for the World Bank-funded road management contracts were approved in March 2017. Substantial progress has been observed in the capacity development component of the program; more than 60 workshops and training programs have been conducted by the project implementation consultants on road safety, community participation, contract management, and safeguards. A consultant for rural road design standards and construction specifications was recruited to deliver the outputs of updated specifications and unit cost database for rural road construction and maintenance by the end of

⁷ ADB. 2017. *Country Operations Business Plan: Sri Lanka, 2018–2020*. Manila.

⁸ These national roads are implemented not by road management contracts but by conventional road contracts.

2017. On the other hand, consultants for road asset management have yet to be recruited. The RDA plans to hire the consultants in line with the progress of the program's physical implementation to develop road asset data of completed projects.

13. As of 30 September 2017, the cumulative disbursement of the program was \$242 million, and the cumulative amount of contract awards under tranches 1, 2, and 3 was \$335 million. All tranches are rated *on track*.

14. The government's policy framework and program that underpin the road map agreed in the FFA (Appendix 4) continue to be relevant, and are in line with new initiatives announced by the government after the approval of the MFF. The Prime Minister's economic policy statements to Parliament on 5 November 2015 and 27 October 2016 identified five development goals: (i) generate 1 million jobs; (ii) enhance income levels; (iii) develop rural economies; (iv) ensure land ownership in the rural and estate sectors; and (v) create and grow a strong middle class.⁹ To develop rural economies, the government plans to establish rural development centers. This will be achieved by grouping many villages as potential development centers with access to fully equipped rural economic market units, and by upgrading or rehabilitating rural access routes. The public investment programme, 2017–2020 provides the same policy directions for the road sector as the policy statements to facilitate the country's economic growth by creating an efficient road network that (i) connects large and emerging cities, townships, economic centers, and rural hubs; and (ii) ensures safety and equity.¹⁰ The public investment programme includes the following medium-term targets: (i) construction of 204 km of expressways; (ii) rehabilitation of 2,400 km of national highways; and (iii) improvement of connectivity to 2,500 villages through rehabilitation and improvement of the rural, provincial, and national road network. The targets were initiated in the previous public investment programme, 2012–2016, and have been revised and updated for the current program. In line with the current programme, a new national road master plan from 2018 is being developed. Although the road maintenance trust fund is providing a source of funding for routine and periodic maintenance, it has yet to be expanded to include regional roads.¹¹ The government will examine feasible policy alternatives to the existing road maintenance scheme, including the expansion of the road maintenance trust fund. Meanwhile, the performance-based maintenance contracts have been functioning well, as originally planned.

15. In line with the government's national strategy, ADB's country partnership strategy, 2018–2020 for Sri Lanka aims to address major development constraints by (i) strengthening the drivers of economic growth; and (ii) improving the quality of growth (footnote 1). The transport sector is key to implementing the country partnership strategy, and ADB places high value on improving the accessibility of the road network to integrate rural communities with socioeconomic centers.

16. As of October 2017, covenants in the loan and project agreements of the previous tranches under the MFF are being complied with. Annual project financial statements were received in a timely manner and were the subject of unqualified audit opinions. Two covenants were not met when due: (i) development of a systematic project performance monitoring system

⁹ Government of Sri Lanka, Prime Minister's Office. 2015. *Economic Policy Statement made by Hon Prime Minister, Ranil Wickremesinghe in Parliament on 5th November 2015*. http://www.pmooffice.gov.lk/download/press/D00000000009_EN.pdf?p=7; and Government of Sri Lanka, Prime Minister's Office. 2016. *Hon. Prime Minister's Economic Statement in Parliament on 27th October 2016*. http://www.pmooffice.gov.lk/download/press/D00000000053_EN.pdf?p=7

¹⁰ Government of Sri Lanka, Ministry of National Policies and Economic Affairs, Department of National Planning. 2017. *Public Investment Programme, 2017–2020*. Colombo.

¹¹ The road maintenance trust fund was established in 2005, through which its operational budget provides sustainable funding for routine and periodic maintenance of the national road network.

within 3 months of execution of the FFA; and (ii) establishment of baselines for performance indicators within 3 months of effectiveness of the first loan. The deficiencies arose from the delay in recruitment of the project implementation consultant for North Central and North Western provinces (projects 4 and 5); these were remedied in March 2017. In the FFA (Appendix 4), the government provided several high-level undertakings that have either been complied with or are not yet due.

III. PERIODIC FINANCING REQUEST

A. Impact and Outcome

17. The impact will be connectivity between rural communities and socioeconomic centers in Sri Lanka improved.¹² The outcome will be transport efficiency on project roads increased.

B. Outputs

18. Tranche 4 will deliver two outputs: (i) road conditions between the selected rural communities and socioeconomic centers improved; and (ii) capacity of road agencies enhanced. The road improvement output will improve and maintain about 3,108 km of rural access roads and about 248 km of national roads.¹³ The capacity development output will build the capacity of the national as well as local road agencies on road asset management, project management, and contract administration.

19. Tranche 4 will finance the third slice of projects in Southern Province, Sabaragamuwa Province, Kalutara District of Western Province, Central Province, North Central Province, and North Western Province.¹⁴

C. Investment and Financing Plans

20. The total cost of the projects under the program is estimated at \$906 million, inclusive of taxes, duties and interest, and other charges on the loan during implementation. Tranche 4, in the amount of \$150 million, will finance the third slice of projects (Table 1). The government will request subsequent tranche(s) to finance the remaining slice(s) of projects based on disbursement progress.

Table 1: Tranche Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Civil works	147.18
2. Consulting services	12.30
3. Project management	5.85
Subtotal (A)	165.33
B. Contingencies^c	
C. Financing Charges during Implementation^d	2.67
Total (A+B+C)	168.00

^a Cost estimates for the third slice of the projects is \$168 million, which includes taxes and duties of \$18 million to be financed from government resources.

¹² Government of Sri Lanka, Ministry of Finance. 2015. *Annual Report 2014*. Colombo.

¹³ Rural access roads consist of local and provincial authority roads.

¹⁴ Tranche 4 will finance the third slice of projects 1–5. The first slice is financed under tranches 1 and 2, while the second slice is financed under tranche 3.

- ^b In mid-2017 prices.
- ^c Physical contingencies for the program computed at 10% for civil works and 10% for consulting services. Price contingencies computed at about 2% on foreign exchange costs and about 6% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate. Since tranche 4 represents a slice of contracts already awarded (for which costs are fairly certain), it has no contingency cost.
- ^d Includes interest and commitment charges. Interest during construction for the Asian Development Bank loan has been computed at the 5-year forward London interbank offered rate plus a spread of 0.5% for the ordinary capital resources (OCR) loan plus a maturity premium of 0.2% based on an average loan repayment period of 18.75 years. Commitment charges for the OCR loan are 0.15% per year to be charged on the undisbursed OCR loan amount.

Source: Asian Development Bank.

21. The government has requested a regular loan of \$150 million from ADB's ordinary capital resources to help finance the third slice of projects.¹⁵ The government will finance taxes and duties totaling \$18 million. The loan will have a 30-year term, including a grace period of 7 years, an annual interest rate determined in accordance with ADB's London interbank offered rate-based lending facility, a commitment charge of 0.15% per year (interest and other charges during construction to be capitalized in the loan), and such other terms and conditions set forth in the draft loan and project agreements. Based on the straight-line repayment method, the average loan maturity is 18.75 years, and the maturity premium payable to ADB is 0.20% per annum.¹⁶

22. The financing plan is in Table 2. The detailed cost estimates by expenditure category and by financier are provided in the updated facility administration manual (FAM) (Appendix 6).

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Regular loan	150.00	89.29
Government	18.00	10.71
Total	168.00	100.00

Source: Asian Development Bank estimates.

D. Implementation Arrangements

23. The implementation arrangements are summarized in Table 3 and detailed in the updated FAM (Appendix 6).

Table 3: Implementation Arrangements

Aspects	Arrangements
Implementation period	January 2016–March 2024 ^a
Loan closing date	30 September 2022
Management	
(i) Oversight body	National steering committee Secretary, Ministry of Higher Education and Highways (chair) Chief secretaries of the provinces under the program; secretary, Finance Commission; director general, RDA; senior project director and project directors of each project of the program; commissioners of local government authorities under the program; heads of provincial road agencies; district secretaries; External Resources Department; National Planning Department; National Budget

¹⁵ The ADB loan may finance local transportation and insurance costs.

¹⁶ This is based on the loan terms in para. 21 and the government's choice of repayment option.

Aspects	Arrangements		
	Department; and Project Management and Monitoring Department (members)		
	Provincial coordination committees Chief secretary of the province (chair) Project director (secretary) District secretaries, representatives of provincial road agencies, representatives of local authorities (members)		
(ii) Executing agency	Ministry of Higher Education and Highways		
(iii) Key implementing agency	RDA		
(iv) Implementation unit	RDA, 215 staff (to be increased as required)		
Procurement	International competitive bidding	N/A	N/A
	National competitive bidding	N/A	N/A
Retroactive financing and/or advance contracting	Retroactive financing is proposed for eligible expenditures for civil works and consulting services up to 20% of proposed loan, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the legal agreement.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, N/A = not applicable, RDA = Road Development Authority.

^a Including routine and periodic maintenance.

Source: RDA.

E. Project Readiness

24. Project readiness for tranche 4 is high, with all 42 civil works contract packages for rural access roads awarded and all three project implementation consultants mobilized. The first package of road management contracts for national roads was announced in June 2017. Procurement of the remaining packages will commence by the end of 2017. Environment and social safeguards were assessed following ADB's and the government's requirements. No environment or forest clearances are required, and no land acquisition is envisaged.

F. Advance Contracting and Retroactive Financing

25. The FFA allows advance contracting of civil works and consulting services, subject to ADB procedures. However, no procurement of civil works and consulting services will occur under tranche 4, as all procurement was done under tranches 1 and 2. Subject to ADB policies and procedures, the FFA allows for retroactive financing of the expenditures incurred toward civil works and consulting services eligible under advance contracting, provided the expenditures (i) are incurred during the 12 months prior to the signing of the related loan agreements; and (ii) do not exceed an amount equivalent to 20% of each loan. The government requested retroactive financing under tranche 4.

IV. DUE DILIGENCE

A. Technical

26. Tranche 4 will finance slice of projects appraised under tranches 1 and 2. Engineering design for rural access roads was done for all projects under previous tranches, based on site condition surveys, field investigations, and climate risk assessments.¹⁷ Engineering design for some national roads is under preparation under tranches 1 and 2.

B. Economic and Financial

27. As most rural access roads are in poor condition, improvements in road connectivity between rural communities and socioeconomic centers will result in time savings and decreased vehicle operating costs. In addition, all-weather rural access roads will result in significant poverty reduction and social benefits for the rural population, such as increased agriculture productivity, improved access to health and education, and better employment opportunities though the conventional economic analysis model does not capture these social benefits. The overall project's economic analysis indicated it is economically viable, with an overall economic internal rate of return of 18.3% (Appendix 8). A sensitivity analysis on benefits confirmed the project's economic viability.

28. Costs for project roads' operation and maintenance will decrease after construction is completed. Recent trends indicate that future budget allocations for national roads will be adequate for operation and maintenance. The government will explore feasible policy alternatives to the existing road maintenance scheme to improve sustainability of the road asset. The program will also build provincial and local road agencies' technical capacity to maintain the project roads.

C. Governance

29. **Policy and legal.** The implementation arrangements of the program will involve the central, provincial, and local governments. At the central level, the Ministry of Higher Education and Highways (MOHEH) is responsible for policy formulation and performance monitoring. The RDA Act established the RDA as a statutory authority with separate legal status in 1981. The RDA chairperson reports to the MOHEH secretary. At the provincial and local levels, provincial councils are responsible for the respective local authorities' work, under the 13th amendment to the Constitution enacted in 1987 and the Pradeshiya Sabha Act No. 15 in 1987. In keeping with Sri Lanka's devolution norm, the RDA functions as if contracted by provincial authorities to construct roads belonging to local authorities, and executes a memorandum of understanding to this effect. The arrangement follows the existing practice in Sri Lanka, where local authorities generally lack the capacity and resources to implement such projects.

30. The implementation arrangements satisfy the RDA Act, which requires that the RDA consult with other government agencies on projects in their respective areas. The national steering committee and provincial coordination committees will oversee proper coordination.

31. **Institutional capacity.** The MOHEH and RDA have sufficient capacities, experience, and institutional strengths to procure the civil works, select consultants, and administer contracts. The

¹⁷ The incremental cost to address climate change adaptation for the MFF is estimated at \$44.1 million of the civil works cost. This includes the additional cost of drainage, culverts, retaining walls and concrete pavement in flooded areas to address identified climate risks and vulnerabilities such as flooding, soil erosion and landslide.

MOHEH and RDA have arranged participation of provincial, district, and local authorities in the steering and coordination committees, with consideration of their respective institutional capacity.

32. **Financial management.** A financial management assessment found that the financial management risk is moderate and that financial management arrangements are adequate. The RDA has experience implementing ADB-funded projects and has satisfactory capacity in project financial accounting and ADB disbursement procedures. It also has a dedicated project accounting and finance team with suitably qualified accountants. The RDA will establish and maintain separate project records and accounts to identify the project financing resources received and expenditures made, thus providing for an adequate audit trail. The government's Auditor General's Department will annually audit the project accounts and related financial statements following international auditing standards.

33. **Procurement and anticorruption.** Procurement will follow ADB's Procurement Guidelines (2015, as amended from time to time). The Bribery Act, No. 11 of 1954; the Declaration of Asset and Liabilities Act, No. 1 of 1975; and the Permanent Commission to Investigate Allegations of Bribery and Corruption Act, No. 19 of 1994 provide a legal basis to deal with bribery and corruption. The government's Auditor General's Department will monitor procurement activities. ADB explained and discussed its Anticorruption Policy (1998, as amended to date) with the government, the MOHEH, and the RDA. The specific policy requirements and supplementary measures are described in the updated FAM (Appendix 6).

D. Poverty, Social, and Gender Dimensions

34. **Poverty reduction and social impacts.** Tranche 4 will finance the third slice of projects appraised under tranches 1 and 2. The program will improve the socioeconomic situation and enhance poverty reduction in six provinces, where about 11.7 million people reside. RDA conducted consultation and social surveys along all project roads covering 57,438 households. The majority of surveyed households described road conditions as bad or very bad. Communities indicated that the poor conditions prevented safe travel, and cited positive benefits include improved access to education and health, better transport services, and increased job opportunities. Communities will be consulted through a transect walk to ensure the final design of rural access roads incorporates their concerns on construction, social and environmental issues, and road safety.

35. **Gender and development.** The social surveys found that women are actively engaged in family and community activities and decision-making processes: 79% stated they always participate in family decision-making, 59% contribute to household income, and 54% are involved in community activities. About 60% of women stated they are willing to participate in the project by working as maintenance laborers or civil works wage laborers, or by operating small businesses to provide services to contractors. They also indicated improved road accessibility will provide better access to health, education, social, and economic opportunities. Tranche 4 is categorized as *effective gender mainstreaming*, and a gender action plan was prepared (Appendix 12). Gender mainstreaming activities include the following: (i) ensuring women are consulted in the final design of rural access roads; (ii) integrating features that increase safety and meet the needs of the elderly, women, children, and the disabled; (iii) ensuring that at least 30% of local employees hired for road maintenance are women, which will generate about 222,000 person-days of labor, and that they receive equal wages for equal work; (iv) providing training in road maintenance to all employed women; and (v) encouraging women's participation in awareness campaigns on road safety, sexually transmitted infections, and human trafficking.

36. **HIV/AIDS and human trafficking.** The HIV prevalence rate is low in Sri Lanka. The National Sexually Transmitted Diseases and AIDS Control Programme has helped refurbish health clinics and establish outreach and awareness programs. The Integrated Road Investment Program has incorporated measures to mitigate HIV risks by conducting awareness training for civil works contractors and project-affected communities at prominent village locations. Awareness-raising activities will be conducted separately for men and women. The social impact assessment did not identify human trafficking as a significant issue in the project area. It is anticipated that civil works contractors will hire local laborers and not require migrant workers. Communities in the project area will be provided with awareness training on human trafficking.

E. Safeguards

37. **Involuntary resettlement and indigenous peoples.** Tranche 4 is categorized as *B* for involuntary resettlement and *C* for indigenous peoples following ADB's Safeguard Policy Statement (2009) and those of the previous tranches. All tranche 4-financed projects have been appraised under tranches 1 and 2. The due diligence report covering all projects confirms that safeguard impacts are minimal, as envisaged at appraisal, and that tranches 1, 2, and 3 are compliant with the social safeguards requirements outlined in the resettlement framework and indigenous peoples planning framework prepared for the MFF. All requirements in the frameworks have been met, and all planning documents have been disclosed. The government has committed adequate resources to implement safeguard measures, and project implementation consultant staff is in place to provide support. Monitoring reports have been submitted and disclosed, and there are no outstanding complaints.

38. **Environment.** Tranche 4 is classified as *B*, consistent with tranches 1, 2, and 3, and in accordance with ADB's Safeguard Policy Statement. All tranche 4-financed projects have been appraised under tranches 1 and 2, and the environmental assessment and review framework, initial environmental examinations,¹⁸ and climate risk assessments remain valid.¹⁹ The due diligence report indicates that the replanting to compensate the number of trees that are removed due to road improvements is proceeding not as specified in the environmental management plans; therefore, the RDA is requested to follow up and provide its plan on how this will be achieved. Other environmental safeguard requirements have either been complied with or are being complied with. Monitoring reports are being submitted regularly as required and have been disclosed in relevant project pages on the ADB website. There are no outstanding complaints. None of the project roads pass through reserved forest or national parks, sanctuaries, or habitats of protected species, and none disturb any cultural heritage or monuments of cultural or historical importance. All bidding documents contain the provincial-specific environmental management plans, environmental monitoring plans, and road-specific environmental code of practice

¹⁸ Government of Sri Lanka; Ministry of Highways, Ports and Shipping; Road Development Authority. 2014. *Initial Environmental Examination: Integrated Road Investment Program – Project 1 (Southern Province)*. Colombo. (prepared for ADB); Government of Sri Lanka; Ministry of Highways, Ports and Shipping; Road Development Authority; Environmental and Social Development Division. 2014. *Initial Environmental Examination: Integrated Road Investment Program – Project 2 (Central Province)*. Sri Lanka. (prepared for ADB); Government of Sri Lanka; Ministry of Highways, Ports and Shipping; Road Development Authority; Environmental and Social Development Division. 2014. *Initial Environmental Examination: Integrated Road Investment Program – Project 2 (Sabaragamuwa Province)*. Sri Lanka. (prepared for ADB); Government of Sri Lanka; Ministry of Highways, Ports and Shipping; Road Development Authority; Environmental and Social Development Division. 2014. *Initial Environmental Examination: Integrated Road Investment Program – Project 2 (Western Province)*. Sri Lanka. (prepared for ADB); and Government of Sri Lanka; Ministry of Highways, Ports and Shipping; Road Development Authority; Environmental and Social Development Division. 2014. *Initial Environmental Examination: Integrated Road Investment Program – Project 2 (North Central Province)*. Sri Lanka. (prepared for ADB).

¹⁹ Climate risk was assessed as medium because some project roads are in tsunami-affected, storm surge-prone, erosion-prone, and flood-prone areas.

checklists, from which respective contractors prepared road-specific environmental management plans.

F. Risks and Mitigating Measures

39. The overall risk assessment is *moderate*. Major risks are (i) insufficient budget allocation under the fiscal consolidation; and (ii) inadequate maintenance of the road asset. These risks and mitigating measures are described in detail in the updated risk assessment and risk management plan (Appendix 13). The integrated benefits and impacts are expected to outweigh the costs.

G. Risk Categorization

40. Tranche 4 is categorized as *low risk*. All features of a low-risk project have been met: (i) ADB's previous experience in Sri Lanka's road sector shows a sound record; (ii) executing agency capacity for externally financed project administration is reasonable; (iii) the loan amount does not exceed \$200 million; and (iv) all safeguard classifications are not category A.

V. ASSURANCES

41. The government and RDA have assured ADB that implementation of tranche 4 shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the FAM and loan documents.

42. The government and RDA have agreed with ADB on certain covenants for tranche 4, which are set forth in the loan agreement and project agreement.

VI. RECOMMENDATION

43. On the basis of the approval of ADB's Board of Directors for the provision of loans under the multitranche financing facility in an aggregate principal amount not exceeding \$800,000,000 to the Democratic Socialist Republic of Sri Lanka for the Integrated Road Investment Program, it is recommended that the President approve the proposed tranche as described in para. 21 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements for the proposed tranche.